

AU/ACSC/049/1999-04

AIR COMMAND AND STAFF COLLEGE

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THE EFFECTS OF PAY AND BENEFITS ON RECRUITING
AND RETENTION IN THE US ARMY

by

Scott A. Eisenhower, Major, US Army

A Research Report Submitted to the Faculty

In Partial Fulfillment of the Graduation Requirements

Advisor: LTC Michael R. Burney

Maxwell Air Force Base, Alabama

April 1999

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Preface

This research was prompted by my interest in the relationship of pay and retirement benefits to recruiting and retention, as well as, the recent increase in public debate concerning military readiness and pay gaps. This paper will examine past research and examine whether the trends indicated by previous reports still hold true today. These past trends indicated that military pay and retirement benefits did have a negative effect on recruiting and retention. Further research and a formal report has also been directed by Congress in the FY 99 Defense Budget to be completed by summer 1999.

This work should be of interest to the Secretary of the Army, the Joint Chiefs, and the Army personnel policy community. This research is currently under revision by RAND's National Defense Research Institute, a federally funded research and development center sponsored by the Office of the Secretary of Defense.

This research would not have been possible without the assistance of Mr. James R. Hosek of RAND who provided me with the most up-to-date pay gap data. I also would like to thank LTC Hoscheit, Major Ayer and Richard Graham of the United States Army Recruiting Command for providing accessions data and an analysis of the Youth Attitudes Tracking Surveys for the last eight years. Additionally, I would like to thank MSG Barber and LTC Wilmer Sweetser of the Office of the Deputy Chief of Staff for Personnel for providing the retention data for both enlisted soldiers and officers over the last eight years. Finally, I would like to express my

gratitude to LTC Michael Burney, Faculty Research Advisor, for providing me with the necessary points of contact for gathering the data.

Abstract

The last several years there has been a growing concern over the increasing gap between military and civilian pay. More recently, the relationship between retention and retirement benefits has been of increasing interest to Members of Congress and Military Personnel officials.

Over the last 10 years, Military Pay and Retirement Benefits did not significantly influence recruiting, but they become significant factors in the retention of soldiers beyond the initial enlistment. This report argues that there is no pay gap as it is currently defined. Comparison of military and civilian compensation as it relates to pay growth is not a true measure of any gap. Analysis of the data indicates that as the pay gap has increased, there has been a slight increase in recruiting and retention. This trend, while it negates part of my thesis, does not truly explain the total relationship between pay and recruiting/retention. There are other factors, such as stop loss, which during the early 1990's prevented soldiers from leaving the service due to specialty shortages and the Gulf War; and the drawdown that have artificially inflated enlisted reenlistment rates and officer retention. Additionally, recruiting percentages are not an accurate reflection of the impact of pay on attracting today's young men and women. As Youth Attitudes Tracking Surveys (YATS) indicate, the dominant buying motives for the last eight years are training and education.

Additional factors that outweigh the current pay gap debate and that need serious study are troop morale; health care; family care; housing, and other quality of life issues. These issues

upon further study may indicate the true nature of the Army's retention problem and provide the answers we seek.

Chapter 1

Introduction

ORIENTATION TO TOPIC

As the United States Army enters the 21st Century, there is a growing concern over the deterioration of capabilities, specifically as a result of problems in manning the service. Difficulties in recruiting qualified young men and women and the continuing departure of experienced soldiers and officers have prompted stronger calls for increased military pay and benefits. Military Pay and Retirement Benefits – What is the impact on recruiting and retention in the U.S. Army? This is the major question that members of Congress and the Joint Chiefs are wrestling with. To ensure the Pentagon looks to improve military pay and benefits, congressional negotiators added a provision to the 1999 defense appropriations bill ordering a comprehensive review of current programs.¹

PURPOSE OF STUDY

The purpose of this study is to explore Military Pay and Retirement Benefits to determine what impact they have on recruiting and retention in the U.S. Army. The last several years there has been a growing concern over the increasing gap between military and civilian pay. As questions of troop readiness, morale, and quality of life issues arise, several officials' point to pay and retirement benefits as the solution. Some argue that military pay has not kept pace with

the growth in civilian wages and as a result a “pay gap” exists. The existence of a pay gap and the different retirement plans are often cited as the main reasons for problems with recruiting and retention. It appears that pay and benefits do not significantly influence recruiting but they become significant factors in the retention of soldiers beyond the initial enlistment.

METHOD AND PROCEDURES

This study will include an analysis of the relative pay gap and its’ relationship to recruiting and retention. Raw data on recruiting and retention percentages have been collected from the various agencies within the Office of the Secretary of Defense. The primary sources that will be referred are past reports, current reports, books and newspaper articles.

DEFINITIONS

The pay gap is defined, as the percentage difference in military versus civilian pay growths as measured from 1982 which is the benchmark year. Since 1992, the official index used to determine the pay gap is the Employment Cost Index (ECI). Congressional analysts felt this was a better index to compare military and civilian pay because it was updated quarterly and provided a broad base for comparison. RAND Corporation developed an alternate index for pay gap computation called the Defense Employment Cost Index (DECI). This index is believed to be a better indicator because it utilizes a 5-way analysis that includes age, education, occupation, gender and ethnicity as a basis for comparing wage trends in the civilian market.

LITERATURE REVIEW

The manner in which the pay gap is determined and its effect on recruiting and retention can be questioned. A recent report by RAND for the Secretary of Defense indicates that the pay gap

is not as significant as it appears and that retirement benefits do not need to be changed. However, the RAND report recommends a targeted pay raise for junior enlisted and mid-career officers. This report also challenges the relevance of the military/civilian gap estimate of 13.5% as it is currently measured. This pay gap estimate is determined by using the Employment Cost Index (ECI). Congress, in 1992, established this as the official index for determining military pay raises. Furthermore, this report also challenges the argument that pay and retirement benefits are the reasons for the current personnel problems.

OVERVIEW

The second chapter will discuss the pay model used by Human Resource Managers and identify military strategic objectives. Chapter three will investigate whether or not a pay gap exists. It will look at the strategic policy decisions an organization must make and use them as a lens to evaluate the existence of a pay gap. The fourth chapter will analyze the data over the past 10 years to see if there is a relationship between the pay gap and recruiting and retention. Chapter five will discuss the variety of retirement plans that currently exist within the U.S. Army. The sixth chapter will analyze the current data and determine if there is a trend between retirement benefits and retention. Chapter seven will conclude with a summary of the overall findings and results of the study.

Notes

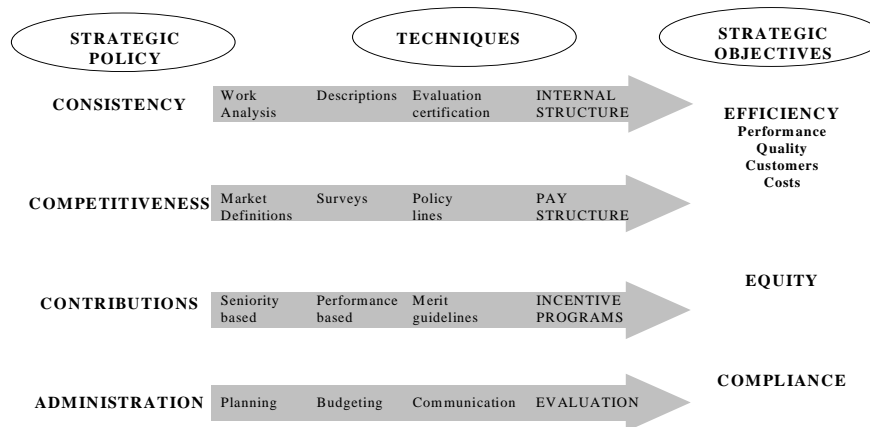
¹ Army Times. *Clinton: Military needs more money*. 5 October 1998, p. 3.

Chapter 2

Military Pay Strategic Objectives

In order to understand how Military Pay is determined we need to first understand the basic pay model that is used by corporate America. Pay systems typically are designed to achieve three goals: (1) recruit quality employees, (2) motivate them to better performance, and (3) retain the best employees.

Figure 1. The Pay Model



Pay systems are designed and managed to achieve strategic organizational objectives. The basic objectives of any organization include efficiency, equity and compliance with laws and regulations.

EFFICIENCY

The efficiency objective of any organization can be stated more specifically as (1) improving performance, quality, delighting customers, and (2) controlling costs.¹ To improve performance and quality the pay system must motivate employees by adequately compensating them. At the same time entry level compensation should be set at levels that will attract the quantity and quality of applicants that the organization is seeking. Delighting customers is a function of controlling costs. The organization's pay system should be set so that consumer costs are kept to a minimum. This is the crux of the problem for many organizations. The pay system must maintain that delicate balance between employee wages and customer satisfaction.

Compensation objectives of the Army consist of maintaining its military capability, recruiting and retaining high quality soldiers, keeping America strong, and staying within its budget as determined by Congress. Military pay is set by Congressional mandate and raises are arbitrarily set a half a point below the Employment Cost Index (ECI). Many argue that the current pay system is not adequate enough to attract the quantity and quality of applicants that the Army needs to stay healthy. It is of interest to note that the Army missed its recruiting mission in Fiscal Year 98 by 1%. However, this report does not attribute this to the growth in the pay gap.

EQUITY

Equity is fundamental to all pay systems. Statements such as "fair treatment for all soldiers" or "a fair day's pay for a fair day's work" reflect a concern for equity.² The Army's equity objective focuses on designing a pay system that recognizes both soldier contributions (performance or greater experience or training) and soldier needs (quality of life issues such as housing or health care). The Army pay system is designed to provide equity by assessing how

the work is organized and performed, its relative value, and the knowledge, skills and abilities (KSAs) required to perform the work. The Army's rank structure and pay schedule attempt to ensure equity.

COMPLIANCE

Compliance as a pay objective involves conforming to various federal and state compensation laws and regulations.³ Under law, military compensation is adjusted upward at the same time and by the same percentage as the average overall percentage of the Federal Civil Service General Schedule.⁴ The General Schedule is linked to U.S. Department of Labor's Bureau of Labor Statistics' labor cost measures. Since 1992, the Employment Cost Index has been the official index for determining the military pay raises within the government.

Notes

¹ Milkovich and Newman, *Compensation*, 1999, p. 10.

² Ibid.

³ Ibid, p. 12.

⁴ Burrelli, David F., *Military and Civilian Pay: Is There a Gap?*, 1995, p.3.

Chapter 3

Does a Pay Gap Exist?

Is there really a pay gap or is this debate a politically feasible way to avoid discussing the real reasons the Army is facing recruiting and retention problems? This report argues that there is no pay gap as it is currently defined. Comparison of military and civilian compensation as it relates to pay growth is not a true measure of any gap.

The pay gap is defined, as the percentage difference in military versus civilian pay growths as measured from 1982 which is the benchmark year. Questions concerning the existence of a pay gap can be viewed from several perspectives and is often emotional. In an attempt to remove the emotion, we need to revisit the Pay Model introduced in the previous chapter. There are three basic building blocks to the pay model: (1) the strategic objectives that form the foundation of the compensation system, (2) the techniques of compensation, and (3) the compensation objectives.¹

Before Congress and the Department of Defense can effectively implement a pay system they must address four fundamental policy decisions. These policy decisions are (1) internal consistency, (2) external competitiveness, (3) soldier contributions, and (4) administration of the pay system.

INTERNAL CONSISTENCY

Internal consistency refers to comparisons among jobs or skill levels inside a single organization. Jobs and skills are compared in terms of their relative contributions to the organization's objectives.² Service members may compare their pay to those in the same Military Occupational Specialty (MOS) or to other members of similar rank. Generally, pay gap discussions currently being held in Congress do not focus on this policy. However, pay comparisons within the Army affect soldier decisions to stay in, to become more flexible by investing in additional training, or to seek greater responsibility. By motivating soldiers to choose increased training and greater responsibility, pay relationships indirectly affect the quality and efficiency of the total force.

EXTERNAL COMPETITIVENESS

External Competitiveness refers to how an employer positions its pay relative to what competitors are paying.³ Congress and the Department of Defense need to decide what strategy they will take in this area. They must choose whether to (1) lead the market, (2) pay the market rate, or (3) lag the market. This area is where the greatest amount of debate on the pay gap is occurring. Increasingly, the Army and soldiers draw comparisons of relative growth in their pay to their civilian counterparts.

The official index used to measure this pay gap is the Employment Cost Index (ECI). Congressional analysts felt this was a better index to compare military and civilian pay because it was updated quarterly and provided a broad base for comparison. RAND Corporation developed an alternate index for pay gap computation called the Defense Employment Cost Index (DECI). This index is believed to be a better indicator because it utilizes a 5-way analysis that includes

age, education, occupation, gender and ethnicity as a basis for comparing wage trends in the civilian market.

It is important to note that both indices make comparisons of pay growth, not pay comparability. Both assume that pay comparability was achieved beginning in 1982, after two major pay hikes. Additionally, neither indices take into account nor discuss such things as overtime pay, deployments, imminent danger pay, housing allowance, medical benefits, etc. Both of these indices contain several analytical flaws that weaken the credibility of the pay gap argument.⁴

The use of either the ECI or DECI assumes that the issues of military compensation are “comparable” to those in the civilian sector. Is this a realistic comparison?

“If Proctor & Gamble requires more employees of a particular grade and skill, it can just increase its incentives and obtain new workers from its competitors. It does not work that way in the military.

Services cannot compete against TWA for more pilots or against Microsoft for more programmers. When a soldier is lost, that soldier is gone, requiring considerable dollars and time to develop a replacement.

The services operate in a closed environment, while corporate America operates in an open one. If the services fail to adequately compensate their personnel who then leave for greener pastures, entire specialties and grades “go hollow.” This has already happened with Air Force pilots, and there are indications it is beginning to happen across the full spectrum of skills within the Army.”⁵

Comparable pay for similar work is another flaw of these indices. Neither index can begin to compare work done in the civilian sector with that of the combat arms (i.e. Infantry, Armor, Aviation, Field Artillery, etc).

“Those who created this yardstick could not find anyone in the civilian sector doing work comparable to combat arms. A parenthetical note to the Rand report states ‘there is no civilian counterpart to combat arms occupations, so the average wage growth across civilian occupations was used for personnel in combat arms.’

When jobs are scarce and any job will do, it isn't tough to keep the combat arms filled. But in a booming economy, the tough, thankless jobs require more compensation.”⁶

SOLDIER CONTRIBUTION

The policy on employee contributions refers to the relative emphasis placed on performance.⁷ Should one Sergeant or Major be paid differently from another if one has better performance and/or greater seniority?

The degree of emphasis to be placed on performance and/or seniority is an important policy decision since it directly affects soldier attitudes and work behaviors. It may be the source of motivation that causes the soldier to improve performance and/or seek greater responsibilities.

The current Army pay system has seniority/longevity built into it. The pays scale shows longevity pay increases every two years beginning at the fourth year of service. In addition, this pay system includes a variety of other incentives.

ADMINISTRATION

The administration of the pay system is the last building block in the pay model. “While it is possible to design a system that incorporates internal consistency, external competitiveness, and employee contributions, the system will not achieve its objectives unless it is managed properly.”⁸

Currently the Army does a poor job of managing its pay system. Proper management includes effectively communicating how and in what way soldiers are paid. Many soldiers have no understanding how their pay is calculated or what their retirement benefits truly are. For most of them, their knowledge of the pay system is the annual publication of the pay chart. Effective communication can reduce dissatisfaction among soldiers. Pay officials and commanders must

plan the elements of pay included in the system (e.g. base pay, short-term and long-term incentives), communicate these to soldiers, and judge whether the system is achieving its objectives.

Are we able to attract quality applicants? Can we keep them? Do our soldiers feel our system is fair? Do they understand how their pay is determined?

These are just a few of the questions that we need to ask. The information that they provide is necessary to tune or redesign the system, to adjust to changes, and to highlight potential areas for further investigation.

Many Congressman and Personnel officials have asked such questions. As a result, we see the current debate that has surfaced and the several new options that have been recommended for fixing the system.

Notes

¹ Milkovich and Newman, *Compensation*, 1999, p.10.

² Ibid, p.13.

³ Ibid.

⁴ Army Times, *Pulling apart the Rand study – flaw by flaw*, 28 December 1998, p.19.

⁵ Ibid.

⁶ Ibid.

⁷ Milkovich and Newman, *Compensation*, 1999, p.14.

⁸ Ibid.

Chapter 4

Analysis of the Relationship between the Pay Gap and The Quality/Quantity of Personnel

The purpose of this chapter is to analyze the data over the last 10 years to see if a relationship exists. If a relationship does exist, then what impact does it have on recruiting and retention. Are there other factors that can be attributed to the erosion of readiness?

RECRUIT QUALITY/QUANTITY

The United States Army Recruiting Command (USAREC) uses the acronym TEAMS to identify the dominant buying motive of applicants during the sales interview. This acronym stands for Training, Education, Adventure/Travel, Money, and Service to Country. This approach assists recruiters in structuring the interview to fit the applicants needs. It is also the focus of recruiting advertisements.

Youth Attitudes Tracking Surveys are conducted yearly of 17 to 21 year olds across the nation to assess their attitudes towards military service. A review of the dominant buying motives from the YATS (Table 1) seems to indicate that the young men and women of today do not view pay as a major concern. The two most prevalent buying motives over the past seven years have been Training (Get a Skill) and Education (Money for College). We see that the Army has increased the incentives in these two areas since early 1991 in an effort to continue to attract high quality applicants. Increased bonuses have been applied to certain critical jobs and

the Army College Fund has grown from \$20,000 to a new high of \$50,000 for a 4-year enlistment.¹

Table 1. Dominant Buying Motives

FISCAL YEAR	I-III A HIGH QUALITY	Dominant Buying Motive
1991	66.9	Money For College
1992	70.2	Get A Skill
1993	61.5	Get A Skill
1994	69.5	Money For College
1995	68.2	Get A Skill
1996	66.8	Money For College
1997	68.6	Something to be Proud of
1998	67.6	Plan For My Future

Source: Graham, Richard, *Review of Dominant Buying Motives Per YATS*, Fax Data, Fort Knox, Kentucky: USAREC, October 7, 1998.

The YATS shows that the Army has consistently assessed a high percentage of I-III A High Quality applicants. I-III A High Quality applicants are defined as those whom possess a high school diploma, completed 15 semester hours of college or an adult education diploma and scored in the upper 50% of the Armed Service Vocational Aptitude Battery (ASVAB). The results of these surveys are the first indication that the debate over the pay gap and its impact on recruiting is untenable.

Table 2 shows the growth of the pay gap over the last 10 years using both the ECI and DECI calculations. It also provides the Army's accessions data for comparison.

A cursory look at the data contained in the table tends to show an inverse relationship between the growth in the pay gap and the percentage of High Quality accessions. Appendix A contains a graphic representation, using regression analysis to compare the ECI Gap to High Quality Accessions. The graph shows that as the pay gap has continued to grow the accessions of high quality applicants have actually increased. The analysis of the data provides a reliability

coefficient (R^2) of .68. This coefficient is sufficiently high enough to be confident in the data and the trend that it indicates. This runs contrary to arguments that the pay gap has adverse effects on recruiting.

Table 2. Pay Gap Indices and Accession Indices by Year

YEAR	ECI Gap	DECI Gap	% HSDG	% AFQT I-III	% High Quality
1986	-8.1	-0.8	92	64	57
1987	-9.4	-2.9	93	67	60
1988	-11.0	-3.8	93	67	61
1989	-10.3	-6.3	92	64	58
1990	-11.2	-6.6	95	68	64
1991	-11.5	-4.8	97.8	66.9	67
1992	-11.5	-0.2	98.7	70.3	70
1993	-11.5	5.9	95.6	61.6	62
1994	-12.1	3.9	94.7	69.5	70
1995	-12.6	-.7	95.7	68.2	68
1996	-13.1	-2.2	93.8	66.8	67
1997	-12.9	-.4	90.1	68.6	69

Source: Pay Gaps calculated using Hosek, James R., *ECI and DECI Pay Gap Data Update*, Email File. Santa Monica, CA., RAND, October 1998. Accessions data from Graham, Richard, *U.S. Army Production FY 1991-FY 1998*, Fax Data. Fort Knox, Kentucky: USAREC, October 1998.

How can the Army continue to maintain this increase in High Quality Accessions? The answer is the drawdown. It must be remembered that over the last 10 years the Army has consistently adjusted the recruiting objectives downward as it dealt with the drawdown. As a recruiting company commander during the early 90's, there were times that the overall mission for the command was reduced. This resulted in the Army making its' accession mission for the year. However, Recruiting companies and battalions would still fail to achieve their yearly accession numbers. This had a negative effect at the recruiter level. Many recruiters, especially detailed recruiters, became disenchanted with a system that counseled them for failing while they saw the command and the Army being praised for meeting or exceeding its' mission

requirements. This reduction of the total requirements had the effect of increasing the overall percentage of High Quality accessions.

The ECI Gap was used for this analysis because it is the officially recognized basis for determining pay raises for the military. There are those who would argue that the DECI Gap should be used. An analysis of the DECI Gap vs. High Quality (Appendix B) would tend to support the pay gap argument. The trend line indicates that as the pay gap improves so should recruiting quality. However, the analysis is considered unreliable due to a reliability coefficient of .15, which is a result of the wide dispersal of data.

The trend indicated by the use of the ECI Gap is further evidence that the pay gap growth does not have an adverse effect on recruiting. There is no contrary evidence to show a direct link between pay gap and recruiting.

RETENTION

Retention is the other concern the Army has. As the debate over the impact of the pay gap continues, several officials both in Congress and DOD point to the gap as the main cause of retention problems.

Table 3 provides a comparison of the pay gap growth and soldier reenlistment rates. As we see by the table, as the ECI Gap has grown reenlistment rates in all categories (1st Term, Career and Total) have also improved. Again, this inverse relationship runs contrary to the arguments that are being presented by personnel officials.

Appendix A contains a graphical representation of this data, comparing the ECI Gap to Career Reenlistment rates. Using regression analysis to plot the best-fit line this report finds a reliability coefficient (R^2) of .59. A r^2 of .59 is not high enough to be confident that the trend it

indicates is accurate or valid. However, the trend that the data indicates does present some interesting questions.

Table 3. Pay Gap and Reenlistment Indices by Year

FISCAL YEAR	ECI Gap	DECI Gap	% 1 st Term Re-up	% Career Re-up	% Total Re-up
1986	-8.1	-0.8	49.2	85.4	63.6
1987	-9.4	-2.9	49.1	84.9	63.6
1988	-11.0	-3.8	49.1	85.2	65
1989	-10.3	-6.3	52.6	87.3	68
1990	-11.2	-6.6	50.7	83.9	66.2
1991	-11.5	-4.8	96.8	96.4	94.7
1992	-11.5	-0.2	89.2	92.2	94.6
1993	-11.5	5.9	92.9	92.7	95.3
1994	-12.1	3.9	108.6	98.3	104
1995	-12.6	-.7	99	102	99.3
1996	-13.1	-2.2	100.2	97.8	99.9
1997	-12.9	-.4	101.6	95.1	99.5

Source: Pay Gaps calculated using Hosek, James R., *ECI and DECI Pay Gap Data Update*, Email File. Santa Monica, CA., RAND, October 1998. Reenlistment data from Barber, MSG US Army, *Reenlistment Data FY 1991-FY 1998*, Phone Interview, Washington, D.C.: ODCSP, Enlisted Division, October 1998.

Why are retention rates going up when pay growth is going down? Why are the retention rates not in synch with the manning problems the Army is experiencing? Is there a flaw in the data? Is pay the issue?

There are several reasons why this data would be considered unreliable. First the drawdown has a significant impact. As the Army has worked through the drawdown, the retention requirements have gone down. The Army does not need as many soldiers. Secondly, the use of incentives such as early retirement has caused a greater exodus from the military than personnel officials expected. Third, pay has become an issue not only for soldiers but also for Congress. What is happening with personnel cuts is affecting soldier perceptions of the pay gap and job

security. Senator Glenn realizes this and states, “personnel cuts are being made in order to generate cash to pay for modernization programs, I agree that our service members deserve the best and most modern equipment available, but I do not agree that reductions should be made simply to generate cash.”² Finally, besides pay being an issue, “what soldiers say is really making them think about leaving is being overworked and over-stressed and not seeing their families.”³ Soldiers do not receive overtime pay or bonuses like their civilian counterparts to counteract the long hours or time away from families. Additional factors that add stress to soldiers are the continual erosion of health care benefits, lack of adequate housing and other quality of life issues.

Using the DECI Gap to compare the pay growth impacts on retention. We see in Appendix B that the trend is what we would expect. A shrinking of the pay gap directly causes an increase in retention. This may be what we want to believe, but the data over this time period is unreliable. The best-fit line generated by regression analysis yields a low reliability coefficient of .35. Again artificial inflation of the data caused by the stop loss prior to the Gulf War and the beginning of the drawdown shortly thereafter, have resulted in retention rates being much higher than the actually would be.

Pay is and will continue to be a major factor in the retention of quality soldiers. During a visit to the 10th Mountain Division last year the Secretary of Defense was peppered with anecdotal evidence of this fact. One NCO told Secretary Cohen, “I had two excellent soldiers who were leaving the Army because they could earn more in civilian life.”⁴

Notes

¹ Army Times, *Fewer soldiers, more perks*, 4 January 1999, p.14.

² Army Times, *Beyond Pay: More bodies, less work would also help*, 19 October 1998, p.10.

³ Ibid.

⁴ Army Times, *Wanted: A better quality of life*, 14 September 1998, p. 3.

Chapter 5

Retirement Plans

The U.S. Army currently has three very distinct retirement plans. First, is the original retirement plan provides 50 percent of final basic pay after 20 years of service. Second, the “High 3” which provides 50 percent of the average basic pay for the highest three years of service. Third, “Redux” pays only 40 percent of the average final basic pay after 20 years of service. Service members who have complained about the reduced value of their retirement benefit have pointed primarily to the 40 vs. 50 percent difference according to military personnel officials and congressional aides.¹

Although the military has three retirement systems, depending on when a person entered the service, the most significant change in retirement plans was implemented in 1986. That year Congress implemented what would become the "Redux "retirement plan. Those who entered service after July 31, 1986 are under a retirement system that pays just 40 percent of basic pay for 20 years of service.

The Center on Budget and Policy Priorities, a civilian watchdog organization, argues that there were good reasons for this reform. They stated, “There were sound reasons for the reforms of the mid-1980’s in terms of controlling long-term entitlement costs, curbing excesses in a gold-plated program and reducing disincentives for skilled personnel to leave the military in their early 40’s.”² They believed that this new plan would provide an incentive for soldiers to stay in

service longer. It is not having the desired effect. Secretary Cohen stated, “The change made in 1986 was intended to provide an incentive for personnel to remain in service longer. But it is having just the opposite effect.”³ He was probably referring to the added benefits the retirement system was to provide to those that stayed beyond 20 years. Those added benefits amounted to an additional 3.5% of basic pay for every year over 20.

Notes

¹ Army Times, *50% Retirement*, 26 October 1998, p.4.

² Ibid.

³ Army Times, *Wanted: A better quality of life*, 14 September 1998, p. 3.

Chapter 6

Analysis of the Relationship between Retirement and The Quality/Quantity of Personnel

The sole focus of the debate over the impact of retirement benefits on retention centers on the Redux retirement plan. Figure 2 shows the impact of this change on soldiers' earnings. These numbers are estimates of what each rank could expect to see upon retirement at the end of 20 years beginning in 2000.

Table 4. Retirement Plan Earnings

Rank	Final Basic Pay	High 3	Redux
O5	\$31,667	\$30,163	\$24,130
O4	\$27,399	\$26,524	\$21,219
E7	\$14,882	\$14,285	\$11,428
E6	\$13,035	\$12,619	\$10,095

So what is the impact of this on recruiting and retention? There is a vast amount of anecdotal evidence that has been presented to Congress by the Joint Chiefs and Personnel officials. Representatives have also heard a lot from soldiers during their visits.

RECRUIT QUALITY/QUANTITY

There is no direct link between retirement benefits and recruit quality. Yes, there have been arguments that recruiting is suffering. This year marked the biggest shortfall in recent years. “The Army recruited 71,750 soldiers, 1 percent fewer than its 72,500 target.”¹ However, these arguments tend to focus on four aspects that are not related to retirement benefits.

First, the national economy has undergone unprecedented growth over the last few years. Industry profits are up and they are offering better pay. The Commanding General of Recruiting Command points out, “Private industry is offering good packages and pay. Our benefits are going to have to become more comprehensive, although our incentives – college bonuses and cash bonuses – have never been higher.”²

Second, there are those that argue there is a shortage of recruiters. However, recruiters were “plussed up” from 5,200 in 1997 to nearly 6,000 in 1998.³ What they fail to take into account is that the recruitable population is getting smaller. The baby boom generation has grown older and the pool of applicants from which to draw is smaller. Additionally, the YATS indicates that this pool tends to focus on the Training and Education benefits the Army offers.

Third, there was an unexpected increase in first-term attrition rates. “The attrition rate for soldiers undergoing Initial Entry Training (IET) soared from 8 percent in 1997 to 15 percent in 1998.”⁴ This is not the fault of Recruiting Command. Recruiters contract those individuals that meet the standards as defined in current regulations. The three standard hurdles an applicant must pass are mental aptitude, moral, and physical guidelines. This unforeseen loss falls under the prerogative of the Deputy Chief of Staff for Personnel (DCSPER). DCSPER suspects that new, tougher standards for basic training may be to blame.⁵ The effect of these changes did not become apparent until it was too late for recruiters to respond. If there is a disconnect between

recruiting and IET standards, then the Army needs to focus their attention on aligning the standards and not by throwing more money at an already small recruiting pool.

Finally, there are arguments that “Our recruiters didn’t have all the equipment they should have had.”⁶ This argument makes one wonder how the Army made its recruiting mission before the age of technology. The better argument is we need to look at how we get our message out. Are the national advertisements effective? Do we need to put more money into regional advertising in order to influence the diversity within those populations?

As the arguments tend to point out, the shortfalls in recruiting are do to a robust economy, competitive pay, and a lack of resources to do the job. There is no evidence to indicate that retirement benefits have any impact on the Army’s ability to recruit.

RETENTION

The 40 percent plan “is increasingly perceived by our military members as simply not good enough to justify making a career of the military.”

—Gen. Henry Shelton
Chairman of the Joint Chiefs

The epitaph above is just one example of the anecdotal evidence that Congressman and Personnel officials use to link the manning problems of today’s Army with the continued reduction in retirement benefits. While there is no evidence of exit surveys being done with soldiers as they depart the Army, we can look to the enlisted retention rates and officer separation rates and determine what trends may or may not support this argument.

Tables 4 and 5 show the enlisted reenlistment and officer separation rates for the last 10 years. A graphical representation of trends can be found in Appendix C. As we can see by looking at the data both in the tables and in Appendix C, the trend is upward in both situations.

The enlisted retention rates show a steady increase in all categories reaching historical highs in fiscal years 1994 and 1995. This runs contrary the argument that the Redux retirement plan is having an adverse impact on retention.

There are two overriding reasons for this increase. First, the implementation of the stop loss program prior to the Gulf War prevented several soldiers from leaving the service. At that time many soldiers were becoming dissatisfied with the service and the continual erosion of their retirement benefits. How many would have actually stayed is left for debate. However, during discussions with several officers while preparing this report, many indicated that several of the soldiers that had worked for them were looking to leave.

The second reason that can be attributed to the rise in retention rates occurs in the post-Gulf War years. With Congressionally mandated end-strengths, the drawdown provided many dissatisfied soldiers the opportunity to leave the service. This had the effect of reducing retention goals. With smaller retention goals it became easier to find those soldiers who wanted to stay and thus easier to meet or exceed those goals.

Table 5. Reenlistment Rates by Year

FISCAL YEAR	% 1 st Term Re-up	% Career Re-up	% Total Re-up
1986	49.2	85.4	63.6
1987	49.1	84.9	63.6
1988	49.1	85.2	65
1989	52.6	87.3	68
1990	50.7	83.9	66.2
1991	96.8	96.4	94.7
1992	89.2	92.2	94.6
1993	92.9	92.7	95.3
1994	108.6	98.3	104
1995	99	102	99.3
1996	100.2	97.8	99.9
1997	101.6	95.1	99.5

Source: Reenlistment data from Barber, MSG US Army, *Reenlistment Data FY 1991-FY 1998*, Phone Interview, Washington, D.C.: ODCSP, Enlisted Division, October 1998.

An additional effect of the drawdown found the Army working against itself. On one hand the Army was offering early retirement to those soldiers who qualified as a means to meet yearly end-strength goals. However, this created more dissatisfaction among the soldiers because it was only offered to certain MOSs. The flip side of this also caused the Army to boost reenlistment bonuses because it created significant unforeseen shortfalls in these MOSs. We still see the effects of this today as the Army continues to boost reenlistment bonuses for some MOSs to as much as \$20,000.

It is the belief of this report that removing the effects of these programs would truly show the poor state of readiness of the U.S. Army. This lack of readiness is not only a factor of retirement benefits but also to the increased OPTEMPO and reduced quality of life that is associated with it. Some experts believe, “more people and fewer missions might give military morale a bigger boost than higher pay and better retirement benefits.”⁷

Officer separation rates are no better. Table 5 shows the raw percentages for the last 10 years and a graphical representation can be found in Appendix C.

Table 6. Officer Separations by Year

FISCAL YEAR	% O1-O4 Separations	% O5-O6 Separations	% Total Separations
1986	5.2	1.7	8.2
1987	6.1	1.8	9.0
1988	5.8	1.7	8.9
1989	5.4	2.2	9.0
1990	7.5	2.1	11.3
1991	5.0	1.5	8.1
1992	9.5	3.2	15
1993	9.5	3.3	14.9
1994	7.4	2.4	11.3
1995	6.6	2.3	10.6
1996	6.5	1.7	9.8
1997	6.6	2.0	10

Source: Separation data from Sweetser, Wilmer LTC, US Army, *Officer Separation Data Files, FY 1986-FY 1998*, Email Files, Washington, D.C., ODCSP: Officer Division, October 1998.

Again, we see the same upward trend as we saw with the enlisted soldiers. This trend can be attributed to the same reasons that we saw for enlisted soldiers. The drawdown and restructuring of the Army had the effect of reducing the number of required officers. To encourage officers to leave, the Army again offered an early retirement plan.

Additionally, as officers in year groups 86 and later began to fully realize the impact of the Redux retirement plan they began to weigh their commitment to military service against what they could earn in the booming economy. This is evident by the almost twofold increase in separations for Lieutenants through Majors during this time frame.

As deployments continually increased and enlisted soldiers left the Army, officers continually found themselves trying to accomplish the same missions with fewer soldiers. There are many units currently in the Army that are undermanned. Having to eliminate a squad from a platoon in order to maintain the other squads at full strength does not give that platoon leader the

same capability. This has contributed to the frustrations experienced by many officers and has led them to reconsider their choice of careers.

Notes

¹ Army Times, *Recruiting deficit looms larger*, 9 November 1998, p. 12.

² Army Times, *Coming Up Short*, 9 November 1998, p. 13.

³ Army Times, *Recruiting deficit looms larger*, 9 November 1998, p. 12.

⁴ Army Times, *Coming Up Short*, 9 November 1998, p. 13.

⁵ Ibid.

⁶ Ibid.

⁷ Army Times, *Beyond pay: More bodies, less work would also help*, 19 October 1998, p.

10.

Chapter 7

Conclusion

People are the most important enabler of our National Military Strategy. To recruit and retain people, who meet high military standards, the quality of life of our military personnel must be commensurate with the sacrifices we ask them to make.¹ We must provide adequate compensation, medical care, housing, and a stable retirement system. We must manage the tempo of operations, deployments and personnel transfers to avoid adverse effects on our people and their families.

Over the last 10 years, Military Pay and Retirement benefits have not had a significant impact on recruiting. The YATS studies indicate that today's youth predominately join the Army for two reasons: Training and Education. Additionally, the stop loss program, the drawdown, and the restructuring of the Army had the effect of reducing the mission of recruiters. The Army needed fewer new enlistees to keep the ranks full.

Military Pay and Retirement Benefits become significant factors in retaining quality soldiers and officers. Although analysis of the data negates this portion of my thesis, it is not a true reflection of what is happening. It does matter what you pay soldiers. It matters what you pay for and it matters how you pay. If the Army and Congress are to fix the retention problems, they must develop a pay system that integrates both strategic and compensation objectives and apply

techniques that help them achieve them. This requires a thorough job analysis and a determination of just what value they put on a soldier's work.

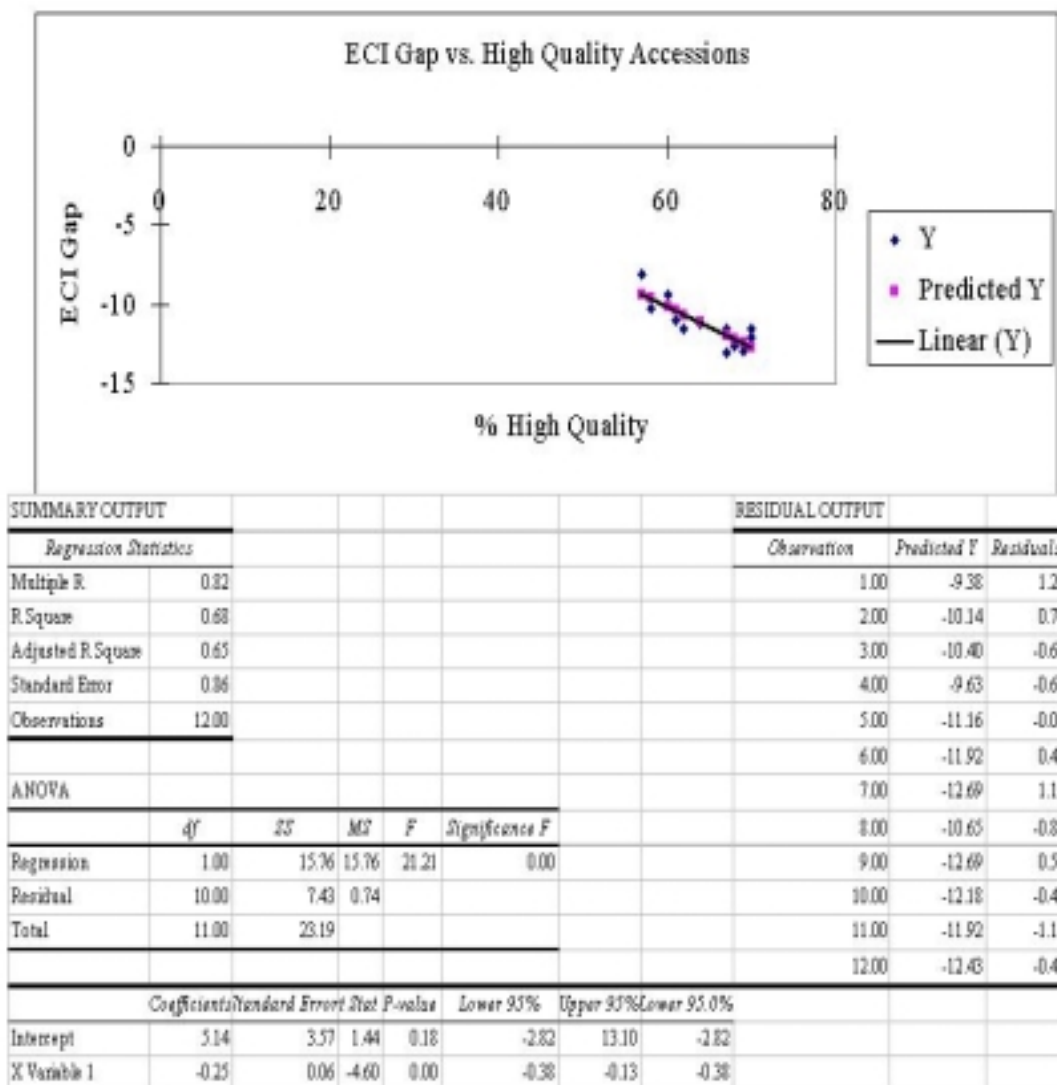
Other factors that need serious study and must be incorporated into the current pay gap debate are troop morale; health care; family care; housing, and other quality of life issues. These issues upon further study may indicate the true nature of the Army's retention problem and provide the answers we seek. Perceptions may be stronger than reality. The increase in Optempo is putting pressure on both service members and their families. If readiness is to improve we need to rethink the commitment of forces worldwide.

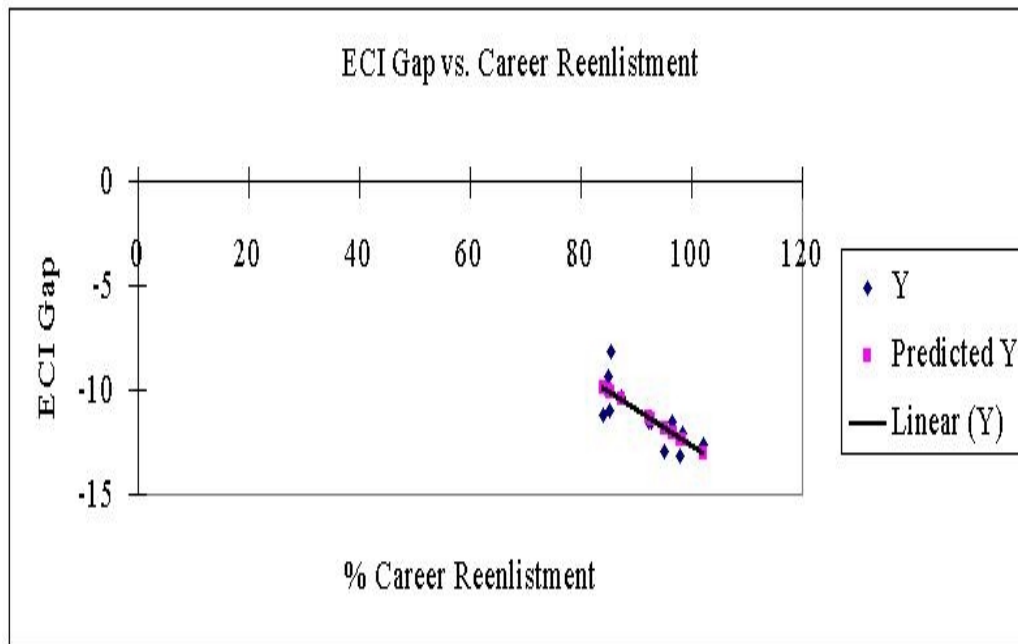
Notes

¹ National Military Strategy, 1997, p.28.

Appendix A

Employment Cost Index Analysis

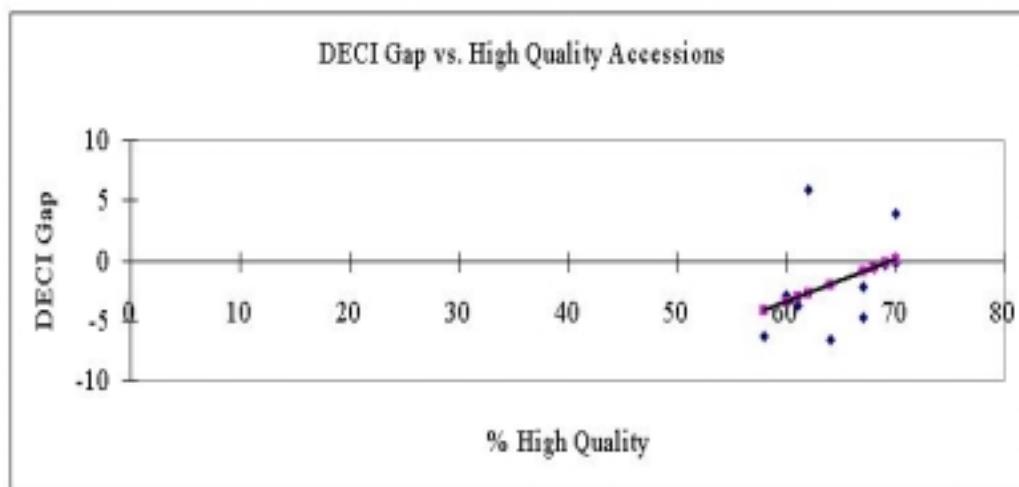




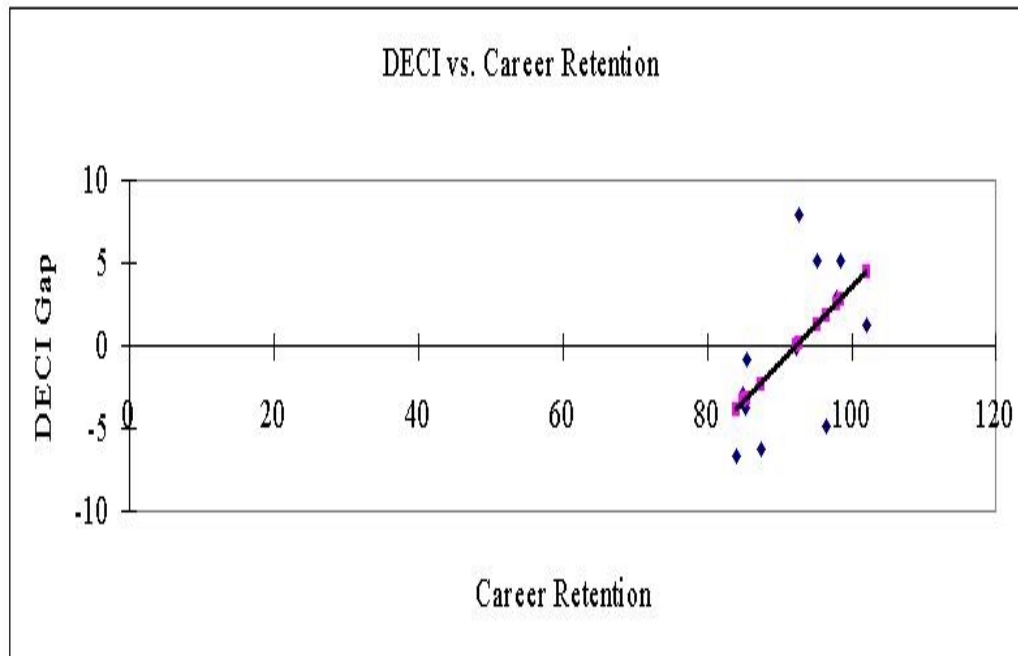
SUMMARY OUTPUT						RESIDUAL OUTPUT			
Regression Statistics						Observation	Predicted Y	Residuals	
Multiple R	0.77					1.00	-10.13	2.03	
R Square	0.59					2.00	-10.04	0.64	
Adjusted R Square	0.55					3.00	-10.10	-0.90	
Standard Error	0.98					4.00	-10.47	0.17	
Observations	12.00					5.00	-9.87	-1.33	
						6.00	-12.09	0.59	
ANOVA						7.00	-11.34	-0.16	
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	8.00	-11.43	-0.07	
Regression	1.00	13.63	13.63	14.26	0.00	9.00	-12.43	0.33	
Residual	10.00	9.56	0.96			10.00	-13.09	0.49	
Total	11.00	23.19				11.00	-12.34	-0.76	
						12.00	-11.86	-1.04	
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>	
Intercept	5.07	4.33	1.17	0.27	-4.59	14.73	-4.59	14.73	
X Variable 1	-0.18	0.05	-3.78	0.00	-0.28	-0.07	-0.28	-0.07	

Appendix B

Defense Employment Cost Index Analysis



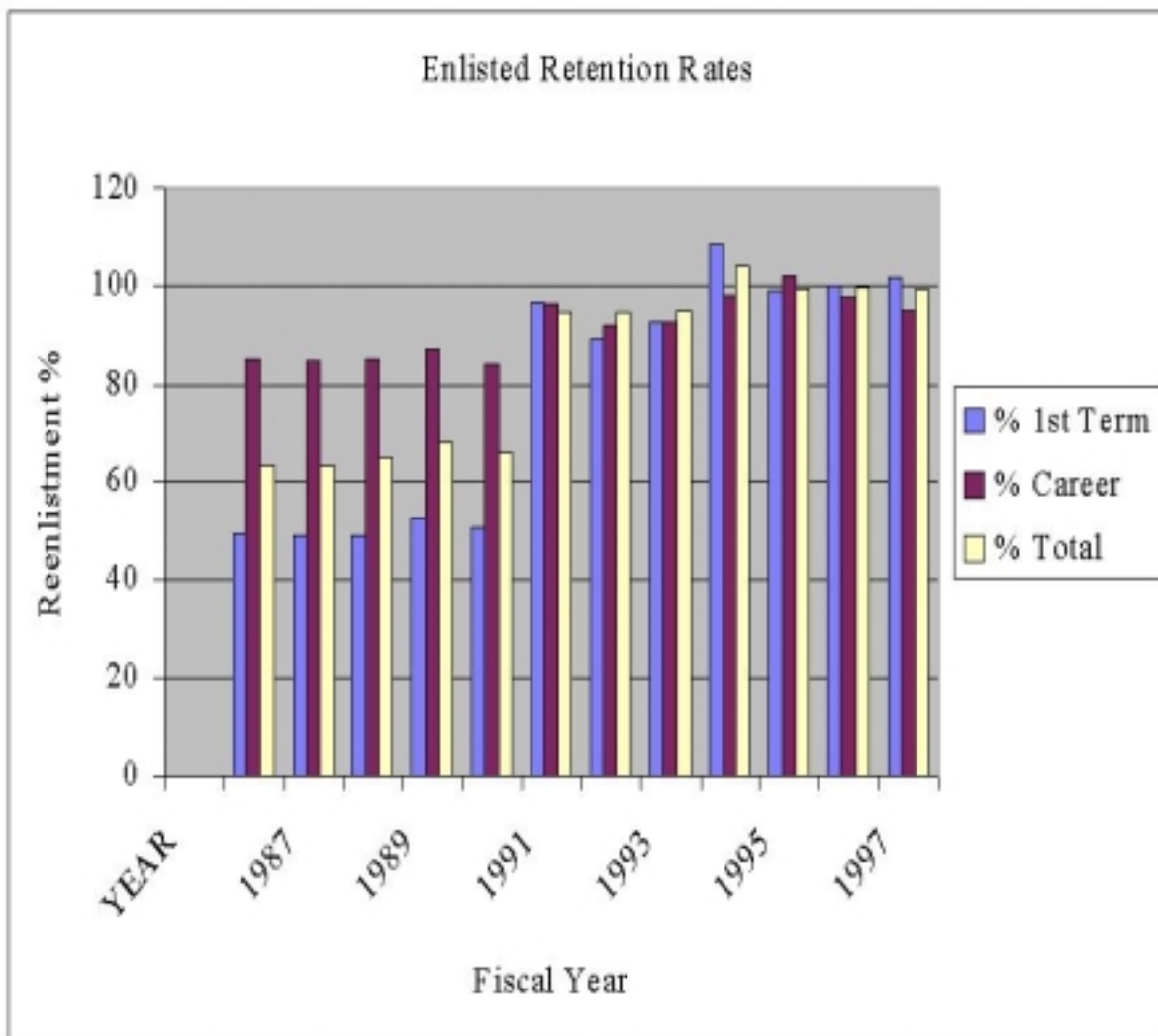
SUMMARY OUTPUT						RESIDUAL OUTPUT			
Regression Statistics						Observation	Predicted	Residuals	Standard Residuals
Multiple R	0.39					1.00	-3.46	0.56	0.15
R Square	0.15					2.00	-3.10	-0.70	-0.19
Adjusted R Square	0.06					3.00	-4.17	-2.13	-0.59
Standard Error	3.83					4.00	-2.03	-4.57	-1.26
Observations	11.00					5.00	-0.97	-3.83	-1.06
ANOVA						6.00	0.10	-0.30	-0.08
	df	SS	MS	F	Significance F	7.00	-2.75	8.65	2.38
Regression	1.00	23.20	23.20	1.59	0.24	8.00	0.10	3.80	1.05
Residual	9.00	131.70	14.63			9.00	-0.61	-0.09	-0.02
Total	10.00	154.91				10.00	-0.97	-1.23	-0.34
						11.00	-0.25	-0.15	-0.04
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%	
Intercept	-24.83	18.45	-1.35	0.21	-66.56	16.90	-66.56	16.90	
57.00	0.36	0.28	1.26	0.24	-0.28	1.00	-0.28	1.00	

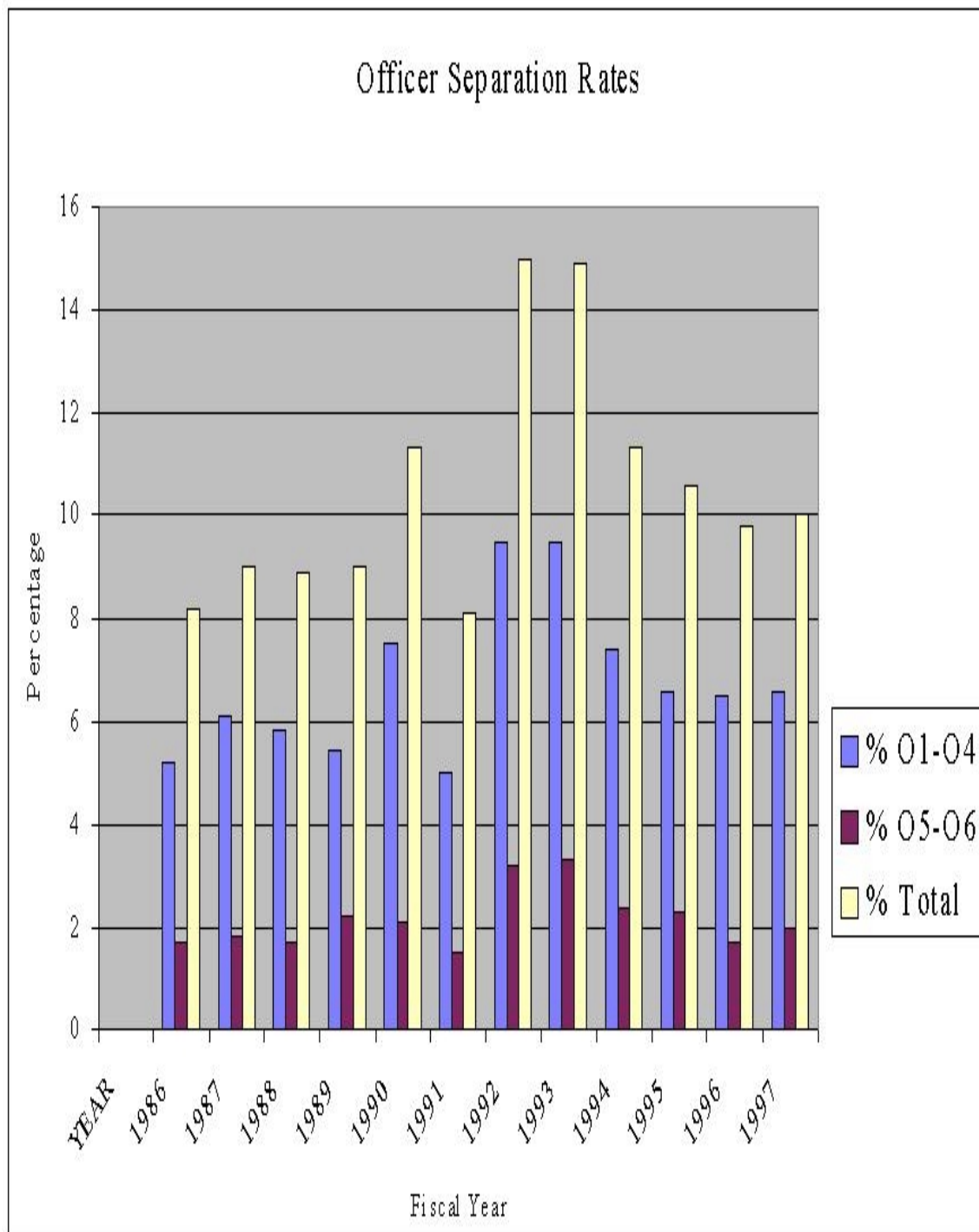


SUMMARY OUTPUT						RESIDUAL OUTPUT			
Regression Statistics						Observation	Predicted Y	Residuals	Standard Residuals
Multiple R	0.59					1.00	-3.16	2.36	0.61
R Square	0.35					2.00	-3.38	0.48	0.13
Adjusted R Square	0.29					3.00	-3.25	-0.55	-0.14
Standard Error	4.06					4.00	-2.29	-4.01	-1.03
Observations	12.00					5.00	-3.84	-2.76	-0.71
						6.00	1.85	-6.65	-1.72
ANOVA						7.00	-0.06	-0.14	-0.04
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	8.00	0.17	7.73	2.00
Regression	1.00	89.15	89.15	5.40	0.04	9.00	2.72	2.48	0.64
Residual	10.00	165.17	16.52			10.00	4.40	-3.20	-0.83
Total	11.00	254.33				11.00	2.49	0.41	0.11
						12.00	1.26	3.84	0.99
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>	
Intercept	-42.04	18.02	-2.33	0.04	-82.19	-1.88	-82.19	-1.88	
X Variable 1	0.46	0.20	2.32	0.04	0.02	0.89	0.02	0.89	

Appendix C

Retirement Analysis





Glossary

ASVAB	Armed Services Vocational Aptitude Battery
BPI	Base Pay Index
DCSPER	Deputy Chief of Staff for Personnel
DECI	Defense Employment Cost Index
DOD	Department of Defense
ECI	Employment Cost Index
IET	Initial Entry Training
KSA	Knowledge, Skills, Ability
MOS	Military Occupation Specialty
NCO	Non-Commissioned Officer
OPTEMPO	Operations Tempo
TEAMS	Training, Education, Adventure/Travel, Money, Service to Country
USAREC	United States Army Recruiting Command
YATS	Youth Attitudes Tracking Survey

Administration - Refers to how a pay system is administered, communicated to employees, and judged in achieving its objectives.

Compensation - Refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship.

External Competitiveness - Refers to the pay relationships among organizations and focuses attention on the competitive positions reflected in these relationships. How an employer positions its pay relative to what competitors are paying.

Internal Consistency - Refers to the pay relationships among jobs or skill levels within a single organization and focuses attention on employee and management acceptance of those relationships. It involves establishing equal pay for jobs of equal worth and acceptable pay differentials for jobs of unequal worth.

I-III A High Quality - Those applicants whom possess a High School Diploma, completion of 15 semester hours of college, or an adult education diploma and score in the upper 50% on the Armed Services Vocational Aptitude Battery.

Pay Gap. The percentage difference in military versus civilian pay growths as measured from 1982 which is the benchmark year.

Soldier Contribution. Refers to comparisons among individuals doing the same job for the same organization.

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